

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-166-WS - ORDER NO. 2018-443
JUNE 21, 2018

IN RE:	Application of Daufuskie Island Utility)	ORDER APPROVING
	Company, Inc. for Approval to Enter into a)	ENTRY INTO LOAN
	Loan Agreement with SunTrust Bank and a)	AGREEMENT
	Request for Expedited Review)	

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Daufuskie Island Utility Company, Inc. (“Applicant” or “DIUC”) for Approval to Enter into a Loan Agreement with SunTrust Bank (“SunTrust”). The Applicant provides water and wastewater services for compensation to customers located in its approved service area on Daufuskie Island, Beaufort County, South Carolina. The Applicant is a “public utility” under the terms of S.C. Code Ann. § 58-5-10(4) and is subject to the regulatory jurisdiction of the Public Service Commission of South Carolina. The rates and charges of the Applicant are regulated and subject to the approval of the Commission. The current rates and charges for Applicant’s water and wastewater service were approved by the Commission in Docket Number 2014-346-WS. Commission Regulations 103-541 and 103-743 of the South Carolina Code of Regulations provide that a utility shall seek the Commission’s approval of contracts or agreements which “impact, pertain to, or effect ...” its “ability to

provide water service [sewer service], including but not limited to treatment of said water” 10 S.C. Code Ann. Regs. 103-743.

As more fully set forth in the Confidential Non-Binding Proposal Letter attached to the Application, SunTrust has indicated that it is willing to consider providing DIUC with a term loan of up to \$3,750,000, not to exceed 65% of as-is market value of DIUC’s facilities. *See* Exhibit One to the Application. (Letter from Carol Coppola, SunTrust Bank, to Daufuskie Island Utility Company, Inc. dated May 11, 2018). DIUC states that the purpose of the loan is to renew DIUC’s existing loans and to allow DIUC to obtain additional funds for general corporate purposes, including capital expenditures.

DIUC is owned by Daufuskie Island Holding Company, LLC (“DIHC”). The three members of DIHC are Terry Lee, David Hutt, and Ronald Shimanowitz. Along with DIUC, Messrs. Lee, Hutt, and Shimanowitz will serve as guarantors for the proposed loan. As stated in the Proposal Letter, DIUC will use proceeds from the proposed loan from SunTrust to refinance the balances of its existing term and installment loans with SunTrust and for corporate purposes, including capital improvements.

The Applicant notes that SunTrust’s offer relies on DIUC’s existing net investment (original cost less accumulated depreciation and net CIAC) as collateral, resulting in the conversion of a portion of DIUC’s existing equity to debt. The proposed financing will then result in a debt/equity ratio of about 49%/51% on the basis of existing net investment and the debt portion will adjust downward to about 47%/53% after anticipated capital additions are completed with proceeds from the loan. For comparison,

the capital structure reflected in DIUC's recent rate Application in Docket No. 2014-346-WS included a debt/equity ratio of 41.2%/58.8% and the Commission's rate decision used a debt/equity ratio of 46%/54%. DIUC asserts that, because the cost rate of debt is lower than the cost of equity, the loan and increased capital acquired by the loan proceeds will reduce the cost of capital and lower DIUC's overall rate of return thereby offsetting the level of future rate increases.

According to DIUC, the terms of the proposed SunTrust loan are commercially reasonable, fair, and the product of arm's length negotiation. The proposed loan also includes interest rate options favorable to DIUC. As set forth in the Proposal Letter, DIUC will have the ability to enter into an interest rate swap with SunTrust to convert the loan's variable rate to a fixed rate for the loan. The anticipated debt rate of 5.26% under this "swap option" is slightly lower than the rate of 5.29% on DIUC's current loan.

Also, according to DIUC, this refinancing will also improve the reliability of the provision of water and wastewater service. In order to comply with an existing Consent Order between DIUC and the South Carolina Department of Health and Environment Control, DIUC stated that it is obligated to install generators for both the water and wastewater systems without delay. The supplier of the required generators advised DIUC that its production time is still delayed following last year's hurricane season and that installation for DIUC would be scheduled 4 to 8 weeks after an order is placed. With hurricane season approaching, DIUC asserts that it needs to place its order for the generators as soon as possible, but the loan proceeds are required for DIUC to commit to that order. Because of the need for generators, DIUC asserts that it is imperative that the

loan from SunTrust be approved without delay so that DIUC can consummate the loan as soon as SunTrust determines it is ready and willing to close the loan.

Based upon the assertions above, DIUC believes that it is in the best interests of the customers of the Applicant and the public that this Commission approve this Application for Approval to Enter into a Loan Agreement with SunTrust Bank as soon as possible, and that the public convenience and necessity will be served by the Commission's approval of this Application. The Office of Regulatory Staff has reviewed the loan agreement and has filed a letter stating "no objection" to the agreement, noting that approval of entry into the loan agreement will have no impact on current rates being charged by DIUC.

We have considered this matter and hold that the Application for Approval to Enter into a Loan Agreement with Sun Trust should be approved as filed. Clearly refinancing current loan agreements and obtaining funds for corporate purposes, including capital expenditures, are reasonable and worthwhile goals for DIUC. Also, lowering the cost of capital and DIUC's overall rate of return is clearly in the public interest, since these actions tend to offset the level of future rate increases for the Applicant. In addition, improving the reliability of the provision of water and wastewater service by DIUC is an excellent goal. Accordingly, the Application is approved.

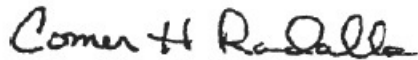
This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman